HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Kingston CMA

Canada Mortgage and Housing Corporation

Date Released: Spring 2008

New Home Market

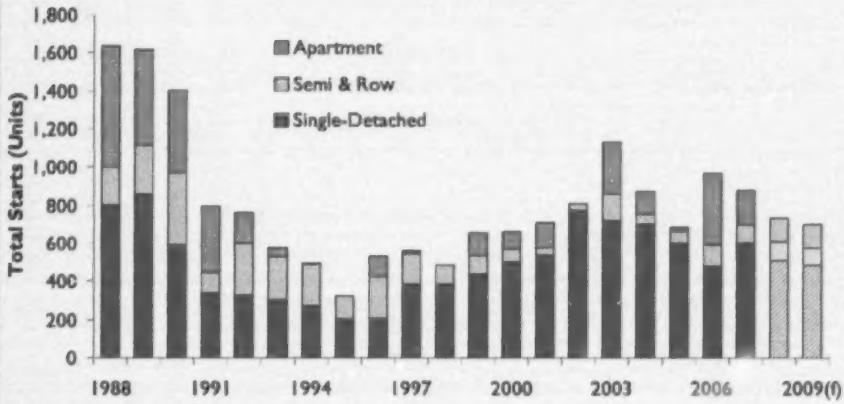
Housing Starts Will Continue Downward Trend

Total housing starts for Kingston Census Metropolitan Area (CMA) in 2008 will decline to 735 units, down 16.5 per cent from 880 units in 2007. In 2009, starts will drop further, reaching 698 units, a 5.0 per cent decrease. In spite of the decrease, new home construction will remain strong by historical levels. Rising mortgage carrying cost and more balanced resale market will affect the new home market.

Single-detached starts will fall by 15 per cent to 510 units in 2008 and decline by an additional 4.9 per cent to 485 units in 2009. Semi-detached, row and apartment starts are also

Figure 1

Total Starts Continue Downward Trend



Source: CMHC- f: CMHC Forecasts

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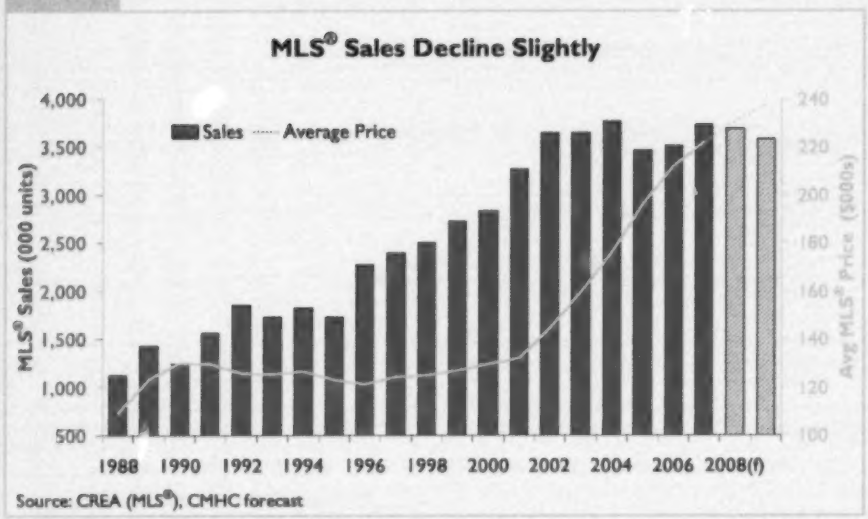
Figure 2



Source: CREA (MLS®), CMHC forecast

expected to decline in 2008 – although to a lesser extent than single-detached units. This fall reflects a shift in consumer demand from more expensive to less expensive housing. Starts of apartment and row units will drop 29.1 and 11.8 per cent respectively in 2008, while starts of semi-detached homes will increase 43.8 per cent.

House prices have grown at a rapid pace in recent years. Continued growth in house prices coupled with modest increases in mortgage rates this year and next will lead to a gradual decline in housing demand. Despite the introduction of flexible and attractive mortgage products last year, some first-time buyers will be sensitive to the rise in mortgage carrying cost. In addition, rising rental vacancy rates have led to slower growth in rents. As a result, the gap between the cost of owning and renting a home has increased, which could also reduce homeownership demand among first-time buyers.

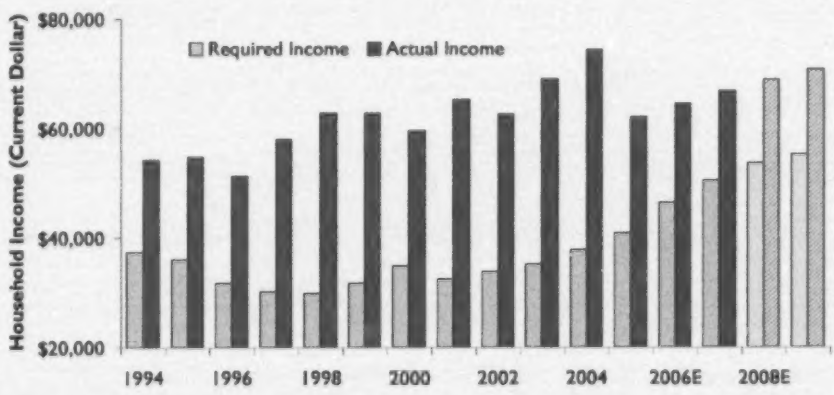
The level of building permits, a forward looking indicator, continued to suggest further contraction in construction activities. Declining construction intensions is a product of a more balanced resale market. Hence, starts are expected to fall gradually to a level consistent with changes in household formation. The increase in new listings in the resale market provides more choice for homebuyers and reduces the spillover demand into the new home market.

Resale Market

MLS Sales Will Decline Slightly From Last Year's Peak

Existing home sales, as measured by the Multiple Listing Service (MLS®), will record approximately 3,600 units in 2008, a decrease of about 1.0 per cent compared to the previous year. New listings of existing homes will remain strong while sales will decline. As a result, the resale market will become more balanced and price

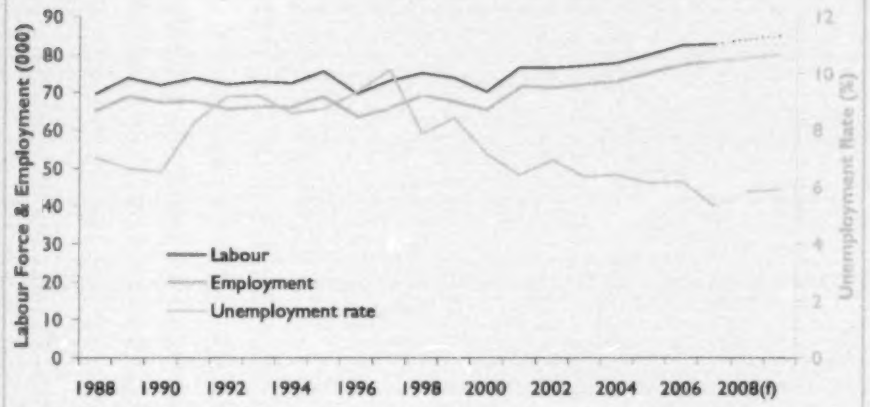
Figure 3



Source: CMHC, Statistics Canada, CREA

Figure 4

Kingston's Employment Slows Down



Source: Statistics Canada; CMHC forecast

growth will ease. The average MLS price will increase by 3.6 per cent in 2008 and by 3.2 per cent in 2009.

The steady price increases and the expected rise in mortgage rates will push mortgage carrying costs higher and housing demand will weaken gradually. However, household income growth will continue to sustain strong consumer spending and will partially offset the impact of increased mortgage carrying costs. On balance, according to the latest CMHC data, required income[1] to buy a home has increased relative to the actual income for the average household. As a result, a slight deterioration in homeownership affordability is projected for 2008.

Economic Trends

Job Creation Will Moderate in 2008 but Remain Positive

The Kingston labour market did well in 2007 and employment increased by 1.3 per cent compared to 2006. In 2007, about 1,000 new jobs were created. As a result, the unemployment rate was down to 5.3 per cent – the lowest annual rate in over two decades.

Health care and public administration will continue to be the main source of strength in Kingston's labour market, partially helping to offset some weakness in goods producing industries. During the first three months of this year, the health care and social assistance sector led all industries in job creation by posting 1,400 new positions.

Looking forward, with the slowing U.S. economy, job creation in Kingston will slow to rates more in line with population growth. Therefore, employment is forecast to grow marginally by 0.8 per cent in 2008 and 1.2 per cent in 2009. Income growth will remain steady and will continue to outpace inflation in the next two years.

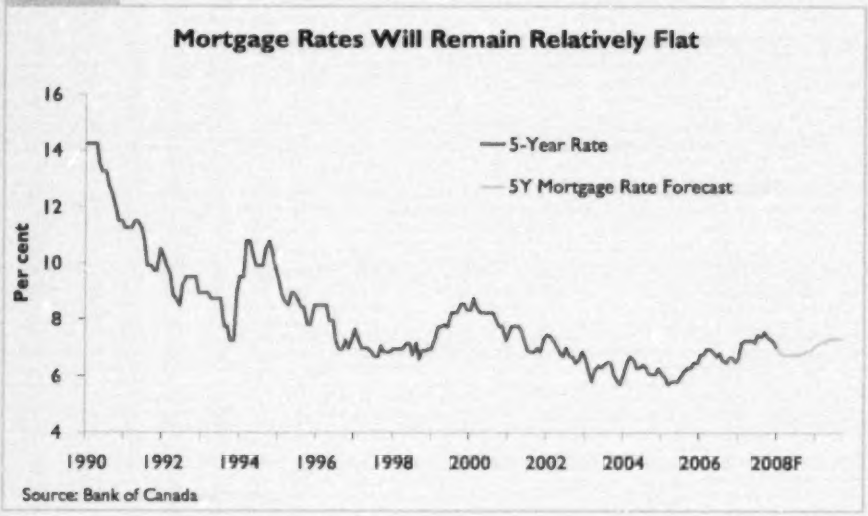
Montréal and Edmonton were Main Destinations for Kingstonians

The Baby Boomers are entering their fifties. Many people who currently fall into the 35 to 50 age group will eventually retire. As a result, immigration will become the main source of replenishing Kingston's aging work force.

In its latest migration report, Statistics Canada indicates that young adults in Kingston have higher tendency to leave the CMA to settle elsewhere in the country. Montréal (9.1 %) and Edmonton (8.6 %) were the main destinations for interprovincial migrants from the Kingston CMA between 2001 and 2006. This was the third year in a row that the Kingston CMA's population declined. However, between 2001 and 2006, the population growth in Kingston was in part attributable to the influx of internal migrants aged 50 to 64. Given the current demographic and economic structure of Kingston, net migration is expected to continue its downward trend.

[1] The Required Income is carrying costs on average-priced MLS home divided by 32 per cent. Actual Income is average household income – 2005, 2006 to 2009 estimated using actual and forecast changes in average weekly earnings. Carrying costs based on 25 year amortization, 10 per cent down payment, average posted fixed 5-year mortgage rates.

Figure 5



Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Forecast Summary Kingston CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	3,464	3,517	3,725	3,692	-0.9	3,581	-3.0
MLS® New Listings	5,775	6,314	6,716	6,850	2.0	6,950	1.5
MLS® Average Price ($)	195,757	212,157	222,300	230,237	3.6	237,605	3.2
New Home Market							
Starts:							
Single-Detached	598	481	600	510	-15.0	485	-4.9
Multiples	85	487	280	225	-19.6	213	-5.3
Starts - Total	683	968	880	735	-16.5	698	-5.0
Average Price ($):							
Single-Detached	258,455	274,964	266,145	271,000	1.8	275,000	1.5
Median Price ($):							
Single-Detached	256,700	274,000	260,000	263,600	1.4	266,700	1.2
Rental Market							
October Vacancy Rate (%)	2.4	2.1	3.2	3.4	0.2	2.9	-0.5
Two-bedroom Average Rent (October) ($)	807	841	856	873	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	75,100	77,300	78,300	78,926	0.8	79,873	1.2
Employment Growth (%)	3.2	2.9	1.3	0.8	0.5	1.2	0.4
Unemployment rate (%)	6.3	6.2	5.3	5.8	0.5	6.0	0.2
Net Migration [1]	-147	-715	0	-529	-	-558	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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